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CAROLINA, CLINCHFIELD AND OHIO RAILWAY

SIXTY-SECOND ANNUAL REPORT

For the year ended December 31, 1972

New York, April 13, 1973

To the Stockholders of
CAROLINA, CLINCHFIELD AND OHIO RAILWAY:

The Sixty-second Annual Report of the Board of Directors, for the year ended December 31, 1972, is submitted herewith:

Under an indenture dated October 16, 1924 the properties of Carolina, Clinchfield and Ohio Railway and its subsidiaries were leased to Atlantic Coast Line Railroad Company (now, by merger, Seaboard Coast Line Railroad Company) and Louisville and Nashville Railroad Company for a period of 999 years from May 11, 1923, at an annual money rental which now and during the remainder of the term of the Lease is 5% on $25,000,000 of Capital Stock, or $1,250,000 annually. The payment of such money rental is to be made in equal quarterly installments on the first day of January, April, July and October of each year. Quarterly dividends at the rate of 5% per annum on the Railway's $25,000,000 Capital Stock were paid out of the money rental received from the Lessees during 1972.

In addition to the foregoing money rental, the Lessees agreed to pay the interest charges on the outstanding funded debt of Carolina, Clinchfield and Ohio Railway and on any bonds that may be issued to refund the same. The Lease also provides that the Lessees shall pay all charges and other expenses in connection with the payment of such interest, shall pay all taxes upon the franchises and leased property and the income thereof, and shall also pay a limited sum for the annual corporate expenses of the Lessors. All rental payments under the Lease are the joint and several obligations of the Lessees.

The Lease provides that, in the case of the issuance of any additional capital stock of the Railway, it shall be stock of a class which has no right to participate in any dividends declared from the money rental above mentioned, which has been fixed at the amount specified for the purpose of enabling the Railway to pay dividends upon $25,000,000 par value Capital Stock at the rate of 5% per annum, and is not intended to be used for any other purposes whatsoever. In consideration of this money rental, each stockholder agrees with the Lessees that he will vote his stock in such manner as is necessary to carry out certain provisions of the Lease from time to time.

The making of the Lease was authorized by the Interstate Commerce Commission on June 3, 1924 (Finance Docket No. 3131). Possession of the leased properties was delivered to the Lessees on December 1, 1924 and the first payment of the money rental under the Lease was made to the Lessors on April 1, 1925.

Submitted as a part of this report are a summary of the operation of the leased properties, a copy of the consolidated general balance sheet, a consolidated statement of income and earned surplus, a statement of mileage and a summary description of the funded debt.

For the Board of Directors,

J. CALVIN KNOTTER, *President.*

MILEAGE

The mileage owned by Carolina, Clinchfield and Ohio Railway and its subsidiary, Carolina, Clinchfield and Ohio Railway of South Carolina, is as follows:

Carolina, Clinchfield and Ohio Railway:

	Miles
Main line: Elkhorn City, Ky., to N. C.—S. C. state line	256.46
Branch lines: Canay, Va., to Moss, Va.	14.53
Bostic Yard, N. C., to junction S. C. L. Railroad	.79
Carolina, Clinchfield and Ohio Railway of South Carolina:	
Main line: N. C.—S. C. state line to Spartanburg, S. C.	18.02
Total	289.80

The lines of this Company have, since December 1, 1924, been operated by the Lessees under the name of "Clinchfield Railroad Company".

In addition to the foregoing mileage, the Lessees also operate the following mileage under trackage rights held by the Carolina, Clinchfield and Ohio Railway:

Chesapeake and Ohio Railway, Elkhorn City, Ky.	.13
Haysi Railway from Berta, Va. to Pittco, Va.	5.55
Total	5.68

This makes the total mileage operated by the Lessees under the Lease 295.48 miles.

RESULTS OF OPERATIONS BY LESSEES

The following is a summary of the operation of the leased properties as reported by the Lessees to the Interstate Commerce Commission:

	1972	*1971*
Railway operating revenues	$40,214,621	$37,876,875
Railway operating expenses	24,814,496	24,062,181
Net revenue from railway operations	15,400,125	13,814,694
Railway tax accruals	3,290,720	3,304,960
Railway operating income	12,109,405	10,509,734
Equipment rents (Net)	(998,470)	(1,249,492)
Joint facility rents (Net)	(294,624)	(374,837)
Net rents	(1,293,094)	(1,624,329)
Net railway operating income	10,816,311	8,885,405
Non-operating income	79,581	81,206
Total income	10,895,892	8,966,611
Total fixed charges and other deductions	3,440,750	3,383,923
Net income to Lessees	$ 7,455,142	$ 5,582,688

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ASSETS

	1972	*1971*
Current Assets:		
Cash	$ 11,297	$ 5,865
Special deposits	823	1,823
Rent receivable	312,500	312,500
	324,620	320,188
Investments:		
Road and equipment property:		
Road	51,991,242	51,122,298
Equipment	367,835	379,300
General expenditures	3,551,417	3,557,148
Construction work in process	299,798	619,648
Other elements of investment (Note 1)	18,132,285	18,132,285
	74,342,577	73,810,679
Accumulated depreciation	4,018	4,071
Investment in transportation property less depreciation	74,338,559	73,806,608
Miscellaneous physical property	62,564	62,564
Total investment less recorded depreciation	74,401,123	73,869,172
Deferred assets	1,728,924	1,799,238
TOTAL ASSETS	$76,454,667	$75,988,598

NOTES:

(1) The amount in "Other elements of investment" above is the excess of the costs recorded in the accounts of the Company over the valuation of the property as determined by the Interstate Commerce Commission for rate-making purposes. By agreement with the Commission, proportions of this account will be cleared as substantial retirements are made.

(2) Surrendered to Trustee for cancellation $3,096,000 and held in custody account of Lessees for future sinking fund payments $539,000.

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IO RAILWAY OF SOUTH CAROLINA

ALANCE SHEET (UNAUDITED)
R 31, 1972

LIABILITIES

	1972	*1971*
Current Liabilities:		
Interest matured unpaid	$ 30	$ 30
Payroll taxes withheld from employees	—	100
Unmatured dividends declared	312,500	312,500
Clinchfield Railroad Company	539,000	638,000
First Mortgage Bonds and premiums called for redemption	—	1,000
Excess cost of Bonds over sinking fund payment	258	605
	851,788	952,235
Deferred liabilities	19,648,507	18,788,555
Funded debt unmatured:		
First Mortgage 4½% Bonds, Series B:		
Issued	16,800,000	16,800,000
Reacquired (Note 2)	3,635,000	3,201,000
	13,165,000	13,599,000
Capital stock	25,000,000	25,000,000
Surplus:		
Unearned surplus	16,862,325	16,862,325
Earned surplus	927,047	794,483
	17,789,372	17,656,808
TOTAL LIABILITIES	$76,454,667	$75,988,598

CAROLINA, CLINCHFIELD AND OHIO RAILWAY
AND
CAROLINA, CLINCHFIELD AND OHIO RAILWAY OF SOUTH CAROLINA

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS
(UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 1972

	1972	*1971*
Income:		
Income from lease of road and equipment	$ 1,885,571	$ 1,906,740
Miscellaneous income	144,928	200,208
Total income for year	2,030,499	2,106,948
Deductions from income:		
Maintenance of corporate organization	29,035	28,422
Interest on bonds	602,888	627,728
Amortization of discount on funded debt	16,012	18,249
Miscellaneous debits	—	280
Total deductions	647,935	674,679
Net income for year	1,382,564	1,432,269
Earned surplus, January 1	794,483	612,214
	2,177,047	2,044,483
Less—Dividends paid ($5.00 per share)	1,250,000	1,250,000
Earned surplus, December 31	$ 927,047	$ 794,483

SUMMARY DESCRIPTION OF FUNDED DEBT
DECEMBER 31, 1972

CAROLINA, CLINCHFIELD AND OHIO RAILWAY
FIRST MORTGAGE 4½% BONDS, SERIES B:

Dated April 1, 1965, due April 1, 1990, secured by first mortgage on the line of railway and other property from Elkhorn City, Kentucky, to the North Carolina-South Carolina state line, 274 miles, by equipment, and by the entire capital stock ($12,000) and $3,000,000 aggregate principal amount (entire issue) of First Mortgage Gold Bonds of Carolina, Clinchfield and Ohio Railway of South Carolina, extended to April 1, 1990. Amount authorized and issued, $16,800,000; subsequently reacquired by Lessees $3,635,000, including $3,096,000 retired through sinking fund; outstanding $13,165,000. Bonds unconditionally guaranteed as to principal, premium, if any, interest and sinking fund payments jointly and severally by endorsement by Atlantic Coast Line Railroad Company (now, by merger, Seaboard Coast Line Railroad Company) and Louisville and Nashville Railroad Company. Trustee: Morgan Guaranty Trust Company of New York. Coupon bonds of the denomination of $1,000, registrable as to principal. Registered bonds, without coupons, of the denomination of $1,000 or any multiple of $1,000. Coupon bonds and registered bonds without coupons are interchangeable and transferable. Interest payable April 1 and October 1 at Morgan Guaranty Trust Company of New York, 23 Wall Street, New York, N. Y. 10015. Redeemable as a whole or in part after not less than 45 days published notice at prescribed redemption prices, plus accrued interest. Annual non-cumulative sinking fund of $336,000 to be applied to the purchase or redemption of bonds.

CAROLINA, CLINCHFIELD AND OHIO RAILWAY

BOARD OF DIRECTORS

A. D. Early	New York, N. Y.
Charles Klem	Mountain Lakes, N. J.
J. Calvin Knotter	New York, N. Y.
Robert R. Krumm	New York, N. Y.
W. J. McDonald	Freeport, N. Y.
H. Everett Woodruff	Belleair, Fla.

OFFICERS

J. Calvin Knotter	*President*
A. D. Early	*Vice-President*
Frank C. Puleo	*Secretary and Treasurer*
J. C. Blackwell	*Ass't Sec'y and Ass't Treasurer*

New York Office — 1 Chase Manhattan Plaza
New York, New York 10005

Stock Transfer Agent
Stock Registrar
and
Dividend Disbursing Agent

Chemical Bank
20 Pine Street
New York, New York 10015